for both physical (the plant simply wore out) and economic (the ILECs were installing a newer technology) reasons. Furthermore, if the ILECs were able to make a convincing case to the Commission that they planned to retire plant more quickly than their historical data would indicate, that projected increase in retirements was reflected in the depreciation life.

24. Under the Commission's depreciation simplification, the ILECs were allowed to select a depreciation life at any point within a range that was determined from the lives previously adopted by the Commission. The ILECs for the most part simply selected the lives at the upper end of the range. It is these lives that determined the depreciation lives used in the SM.

25. Contrary to SBC's claim, then, the regulatory depreciation lives are based on ILECs' actual experience of retirements, and thus reflect both physical and economic obsolescence of plant. Furthermore, the lives used in the SM, because they represent the ILECs' selection of lives at the top of the Commission's permitted range, already reflect the ILECs' estimation of future changes in depreciation lives due to increased competition. The higher lives used to set UNE rates in Missouri are unreasonably high, and lead to an overstatement of the TELRIC for switching.

B. Loop Costs

26. There are also a number of problems with the models used to develop loop costs and the inputs used in those models that result in loop costs that exceed TELRIC. First, there is the same problem with the depreciation lives and net salvage values selected by the Missouri PSC as discussed with switching. These erroneous values also have the same effect –

overstating loop costs by about 12 percent if the SM values are used, or by about 15 percent if the retail intrastate rates are used.

27. An additional input problem in the loop model is the fill factors used for copper distribution and fiber feeder. The Missouri PSC adopted a 40 percent distribution fill factor, the exact level that the FCC rejected in the Massachusetts Order.[10] In addition, the fiber feeder fill factor is set at 85 percent rather than the 100 percent factor used in the SM. The 100 percent fill factor is based on the fact that fiber cable can be "resized" simply by changing the electronics at the end of the fiber and, therefore, does not require additional fibers to accommodate growth or spares. Although adjustments to these two inputs are clearly warranted, WorldCom is unable to determine what the effect of making these changes would be, because SBC has not filed its LPVST model that is used to compute loop investment.

28. The Missouri PSC has also included an unrealistically low amount of sharing of both poles and conduit. The UNE rates are computed for Missouri assuming that SBC is bearing approximately half the cost of the poles in all zones, even though the FCC found that sharing was as high as 65 percent in more urban zones, so SBC would bear only 35 percent of the cost. Worse, the Missouri PSC assumes that SBC will share only 0.09 percent of its conduit with other parties. This is completely inconsistent with the SM, which used sharing of as high as 55 percent in the more urban zones, and with findings in other states. Using this improbably low level of sharing will substantially overstate the cost of conduit for loop plant. Again, however, since SBC did not file its LPVST model, WorldCom cannot quantify the effect of these understated sharing percentages.

---

10 See Massachusetts Order ¶ 39.

29. SBC's computation of loop costs also uses a mix of integrated and universal digital loop carrier ("DLC") that is apparently based on the mix in its historic, embedded network. The forward-looking technology is integrated DLC, as this technology allows more efficient, lower cost provisioning of loops. SBC has not filed the mix of integrated and universal DLC used in determining its UNE loop rates with its application, nor the model that uses those inputs to determine loop costs, so it is impossible to determine the effect on loop costs of using this inefficient technology.

30. The final issue WorldCom has identified with the cost model information available is the lack of tapering of the feeder plant. In effect, this means that the fiber feeder cable is larger than necessary at the end of its run to serve the number of customers at that point in the network. As the Missouri PSC acknowledges, this overstates loop cost. Despite this acknowledgement, however, the PSC proposes no change or adjustment to the model to correct this error. This overstatement of cost could be substantial. However, without the model, WorldCom is unable to determine the effect of this model design flaw.

V. THE ADJUSTMENT TO UNE RATES OFFERED BY SBC IN THIS APPLICATION IS NOT TELRIC-BASED

31. In response to concerns about its pricing in Missouri, SBC has arbitrarily reduced its loop rates by 10 percent (except for 2 wire loops in Zone 3, which it reduced by 40.7 percent) and most of its switching and transport rates by 18.5 percent. While these reductions do move SBC's rates closer to TELRIC, they are insufficient to address all the problems with SBC's costing discussed above. Indeed, the effect of the depreciation lives alone justifies a greater reduction in loop costs than SBC is offering.

32. SBC does not explain the basis on which it determined the sizes of the reduction it is making. Without this explanation, it is impossible to assess the reasonableness of these reductions. Neither is it possible to determine the reasonableness of SBC's reducing the per-minute-of-use switch charge but not the per-line port charge. Since both charges recover the cost of the switch, any reduction in switch costs would likely apply to both rates, yet SBC has offered no explanation for reducing only the usage charge.

VI. CONCLUSION

33. As in SBC's initial section 271 application for Missouri, the problems with the switching and loop models and the inputs indicate that the resulting switch and loop costs are clearly not compliant with TELRIC principles, although the full magnitude of the error cannot be determined from the partial information provided in SBC's application. Nor is there any cost information provided in support of rates in Arkansas. Since SBC's switching and loop rates in Missouri exceed the levels that would be expected given the rates and costs in the other SBC states, as demonstrated supra, it seems clear that the errors are substantial. SBC's ad hoc

reduction of some of its rates to try to address the Commission's pricing concerns is inadequate and unsupported. For these reasons, the Commission should reject SBC's claims that it satisfies the competitive checklist by offering cost-based UNE rates, and deny this section 271 application.

34. This concludes my Declaration on behalf of WorldCom.

I declare under penalty of perjury that the foregoing is true and correct. Executed on September 10, 2001.

Chris Frentrup

Chris Frentrup

EXHIBIT I

SBC QUARTERLY REPORT

Investor Relations

Reformat Document

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ACCESSION NUMBER:               0000732717-01-500018
CONFORMED SUBMISSION TYPE:      10-Q
PUBLIC DOCUMENT COUNT:                  1
CONFORMED PERIOD OF REPORT:     20010630
FILED AS OF DATE:               20010808

FILER:

          COMPANY DATA:
                    COMPANY CONFORMED NAME:                         SBC COMMUNICATIONS INC
                    CENTRAL INDEX KEY:                      0000732717
                    STANDARD INDUSTRIAL CLASSIFICATION:     TELEPHONE COMMUNICATIONS (NO RADIO TELEPHONE)
                    IRS NUMBER:                                     431301883
                    STATE OF INCORPORATION:                         DE
                    FISCAL YEAR END:                        1231

          FILING VALUES:
                    FORM TYPE:          10-Q
                    SEC ACT:            1934 Act
                    SEC FILE NUMBER:    001-08610
                    FILM NUMBER:                  1701032

          BUSINESS ADDRESS:
                    STREET 1:           175 E HOUSTON
                    STREET 2:           ROOM 9-4
                    CITY:                         SAN ANTONIO
                    STATE:                        TX
                    ZIP:                          78205
                    BUSINESS PHONE:               2108214105

          MAIL ADDRESS:
                    STREET 1:           175 E HOUSTON
                    STREET 2:           ROOM 9-4
                    CITY:                         SAN ANTONIO
                    STATE:                        TX
                    ZIP:                          78205

          FORMER COMPANY:
                    FORMER CONFORMED NAME:        SOUTHWESTERN BELL CORP
                    DATE OF NAME CHANGE: 19920703
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FORM 10-Q

United States

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

|X|
Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the quarterly period ended June 30, 2001

or

|_|
Transition Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the transition period from to

Commission File Number 1-8610

SBC COMMUNICATIONS INC.

Incorporated under the laws of the State of Delaware

I.R.S. Employer Identification Number 43-1301883

175 E. Houston, San Antonio, Texas 78205

Telephone Number: (210) 821-4105

Indicate by check mark
whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90

days. Yes X No __

At July 31, 2001,
3,361,916,075 common shares were outstanding.

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF INCOME
Dollars in millions except per share amounts
(Unaudited)

	Three months ended June 30, 2001	Three months ended June 30, 2000	Six months ended June 30, 2001	Six months ended June 30, 2000
Operating Revenues				
Landline local service	$ 5,927	$ 5,462	$ 11,495	$ 10,586
Wireless subscriber	62	1,648	116	3,148
Network access	2,604	2,674	5,207	5,339
Long distance service	736	767	1,519	1,562
Directory advertising	947	967	1,777	1,849
Other	1,201	1,673	2,553	3,260
Total operating revenues	11,477	13,191	22,667	25,744
Operating Expenses				
Operations and support	6,226	7,876	12,309	15,090
Depreciation and amortization	2,174	2,317	4,622	4,580
Total operating expenses	8,400	10,193	16,931	19,670
Operating Income	3,077	2,998	5,736	6,074
Other Income (Expense)				
Interest expense	(425)	(416)	(884)	(772)
Interest income	193	10	371	34
Equity in net income of affiliates	541	189	942	389
Other income (expense) - net	(164)	132	(58)	149
Total other income (expense)	145	(85)	371	(200)
Income Before Income Taxes	3,222	2,913	6,107	5,874
Income taxes	1,143	1,062	2,164	2,201
Income Before Extraordinary Item	2,079	1,851	3,943	3,673
Extraordinary item, net of tax	(8)	-	(18)	-
Net Income	$ 2,071	$ 1,851	$ 3,925	$ 3,673
Earnings Per Common Share:				
Income Before Extraordinary Item	$ 0.62	$ 0.54	$ 1.17	$ 1.08
Net Income	$ 0.62	$ 0.54	$ 1.16	$ 1.08
Earnings Per Common Share - Assuming Dilution:				
Income Before Extraordinary Item	$ 0.61	$ 0.54	$ 1.16	$ 1.07
Net Income	$ 0.61	$ 0.54	$ 1.15	$ 1.07
Weighted Average Number of Common Shares Outstanding (in millions)	3,367	3,396	3,372	3,396
Dividends Declared Per Common Share	$ 0.25625	$ 0.25375	$ 0.51250	$ 0.50750

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED BALANCE SHEETS
Dollars in millions except per share amounts

	June 30, 2001	December 31, 2000

Assets	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ 649	$ 643
Accounts receivable - net of allowances for uncollectibles of $1,170 and $1,032	9,208	10,144
Prepaid expenses	1,070	550
Deferred income taxes	574	671
Other current assets	1,073	1,640
Total current assets	12,574	13,648
Property, plant and equipment - at cost	123,885	119,753
Less: accumulated depreciation and amortization	75,326	72,558
Property, Plant and Equipment - Net	48,559	47,195
Intangible Assets - Net of Accumulated Amortization of $658 and $746	4,957	5,475
Investments in Equity Affiliates	11,757	12,378
Notes Receivable from Cingular Wireless	5,942	9,568
Other Assets	12,145	10,387
Total Assets	$ 95,934	$ 98,651
Liabilities and Shareowners' Equity		
Current Liabilities		
Debt maturing within one year	$ 8,021	$ 10,470
Accounts payable and accrued liabilities	10,808	15,432
Accrued taxes	3,469	3,592
Dividends payable	861	863
Total current liabilities	23,159	30,357
Long-Term Debt	19,024	15,492
Deferred Credits and Other Noncurrent Liabilities		
Deferred income taxes	7,410	6,806
Postemployment benefit obligation	9,967	9,767
Unamortized investment tax credits	287	318
Other noncurrent liabilities	4,832	4,448
Total deferred credits and other noncurrent liabilities	22,496	21,339
Corporation-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trusts	-	1,000
Shareowners' Equity		
Common shares issued ($1 par value)	3,433	3,433
Capital in excess of par value	12,092	12,125
Retained earnings	20,544	18,341
Guaranteed obligations of employee stock ownership plans (ESOP)	(21)	(21)
Deferred compensation - leveraged ESOP (LESOP)	-	(37)
Treasury shares (at cost)	(3,256)	(2,071)
Accumulated other comprehensive loss	(1,537)	(1,307)
Total shareowners' equity	31,255	30,463
Total Liabilities and Shareowners' Equity	$ 95,934	$ 98,651

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Dollars in millions, increase (decrease) in cash and cash equivalents
(Unaudited)

	Six months ended June 30, 2001	2000
Operating Activities		
Net income	$ 3,925	$ 3,673
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	4,622	4,580
Undistributed earnings from investments in equity affiliates	(224)	(142)
Provision for uncollectible accounts	575	415
Amortization of investment tax credits	(31)	(35)

Deferred income tax expense	648	558
Gain on sales of investments	(224)	(216)
Extraordinary item, net of tax	18	-
Changes in operating assets and liabilities:		
Accounts receivable	336	(575)
Other current assets	(431)	(371)
Accounts payable and accrued liabilities	(2,003)	(99)
Other - net	(634)	(1,052)
Total adjustments	2,652	3,063
Net Cash Provided by Operating Activities	6,577	6,736
Investing Activities		
Construction and capital expenditures	(5,744)	(5,341)
Investments in affiliates	1,512	(103)
Proceeds from short-term investments	510	-
Dispositions	339	216
Acquisitions	-	(3,663)
Net Cash Used in Investing Activities	(3,383)	(8,891)
Financing Activities		
Net change in short-term borrowings with original maturities of three months or less	(2,402)	4,604
Issuance of long-term debt	5,724	1,031
Repayment of long-term debt	(2,415)	(794)
Early redemption of corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	(1,000)	-
Purchase of treasury shares	(1,465)	(892)
Issuance of treasury shares	132	172
Redemption of preferred shares of subsidiaries	(60)	-
Dividends paid	(1,727)	(1,698)
Other	25	50
Net Cash Provided by (Used in) Financing Activities	(3,188)	2,473
Net increase in cash and cash equivalents	6	318
Cash and cash equivalents beginning of year	643	495
Cash and Cash Equivalents End of Period	$ 649	$ 813
Cash paid during the six months ended June 30 for:		
Interest	$ 861	$ 848
Income taxes, net of refunds	$ 1,330	$ 1,560

See Notes to Consolidated Financial Statements.

SBC COMMUNICATIONS INC.

CONSOLIDATED STATEMENT OF SHAREOWNERS' EQUITY
Dollars in millions
(Unaudited)

	Common Shares	Capital in Excess of Par Value	Retained Earnings	Guaranteed Obligations of Employee Stock Ownership Plans	Deferred Compensation-LESOP	Trea Sha
Balance, December 31, 2000	$ 3,433	$ 12,125	$ 18,341	$ (21)	$ (37)	$ (2
Net income	-	-	3,925	-	-	
Other comprehensive loss	-	-	-	-	-	
Dividends to shareowners	-	-	(1,723)	-	-	
Reduction of debt associated with ESOP	-	-	-	-	-	
Cost of LESOP trust shares allocated to employee accounts	-	-	-	-	37	
Purchase of treasury shares	-	-	-	-	-	(1
Issuance of treasury shares	-	(109)	-	-	-	
Other	-	76	1	-	-	
Balance, June 30, 2001	$ 3,433	$ 12,092	$ 20,544	$ (21)	$ -	$ (3

See Notes to Consolidated Financial Statements.

SELECTED FINANCIAL AND OPERATING DATA

At June 30, or for the six months then ended:	2001	2000
Debt ratio..	46.4%	46.7%
Network access lines in service (000)	60,579	61,233

Network access lines in service (000)................	[illegible]	[illegible]
Resold and rebundled line (000)....................	3,200	2,056
Access minutes of use (000,000)	142,738	140,134
Cingular Wireless customers*(000)..................	21,218	18,143
Number of employees................................	216,600	219,000

*Amounts represent the 100% pro forma customers of Cingular Wireless.

SBC COMMUNICATIONS INC.
JUNE 30, 2001

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Dollars in millions except per share amounts

1. BASIS OF PRESENTATION Throughout this document, SBC Communications Inc. is referred to as "we" or "SBC". The consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) that permit reduced disclosure for interim periods. We believe that these financial statements include all adjustments (consisting only of normal recurring accruals) necessary to present fairly the results for the interim periods shown. The results for the interim periods are not necessarily indicative of results for the full year. You should read this document in conjunction with the Consolidated Financial Statements and accompanying notes included in our 2000 Annual Report to Shareowners.

   The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. We have reclassified certain amounts in prior period financial statements to conform to the current period's presentation.

   In the second quarter of 2001, Cingular Wireless (Cingular), SBC and BellSouth Corporation completed the net debt settlement calculations that were a part of the Cingular contribution agreement. As a part of this process, we netted approximately $2,500 of payables to Cingular with our notes receivable from Cingular during the quarter. In addition, based on our current expectations of when Cingular will repay the amount owed, we have reclassified the notes receivable from Cingular from current to noncurrent assets.

2. CONSOLIDATION The Consolidated Financial Statements include the accounts of SBC and our majority-owned subsidiaries. All significant intercompany transactions are eliminated in the consolidation process. Investments in partnerships, joint ventures, including Cingular, and less than majority-owned subsidiaries are principally accounted for under the equity method. Earnings from certain foreign investments accounted for using the equity method are included for periods ended within three months of the date of our Consolidated Statements of Income.

3. EXTRAORDINARY ITEM The second quarter of 2001 includes an extraordinary loss of $8, net of taxes of $6, related to the early redemption of approximately $500 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The first six months of 2001 includes an extraordinary loss of $18, net of taxes of $10, related to the early redemption of approximately $1,000 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts.

4. COMPREHENSIVE INCOME The components of our comprehensive income for the three and six months ended June 30, 2001 and 2000 include net income and adjustments to shareowners' equity for the foreign currency translation adjustment and net unrealized gain (loss) on securities. The foreign currency translation adjustment is due to exchange rate fluctuations in our foreign affiliates' local currencies, primarily in Denmark and Canada.

   Following is our comprehensive income:

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Net income	$ 2,071	$ 1,851	$ 3,925	$ 3,673
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	56	(101)	(182)	(211)
Net unrealized gain (loss) on securities:				
Unrealized gain (loss) on available for sale securities	(29)	(24)	(52)	25
Less: reclassification adjustment for (gain) loss included in net income	4	(8)	4	(46)
Net unrealized gain (loss) on securities	(25)	(32)	(48)	(21)
Other comprehensive income (loss)	31	(133)	(230)	(232)

Total comprehensive income	$ 2,102	$ 1,718	$ 3,695	$ 3,441

5. COMPLETION OF MERGER Upon completion of the merger of an SBC subsidiary with Ameritech Corporation (Ameritech) in October 1999, we reviewed operations throughout the merged company. Based on this merger integration review, we made strategic decisions to significantly integrate operations and consolidate some administrative and support functions which resulted in one-time charges.

One-time charges incurred included costs related to various regulatory and legal issues, merger approval costs and other related costs, as well as costs related to strategic decisions reached by the review teams. Remaining accruals for anticipated cash expenditures related to these decisions were approximately $81 and $158 at June 30, 2001 and December 31, 2000.

6. EARNINGS PER SHARE A reconciliation of the numerators and denominators of basic earnings per share and diluted earnings per share for income before extraordinary item for the three and six months ended June 30, 2001 and 2000 are shown in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
Numerators				
Numerator for basic earnings per share:				
Income before extraordinary item	$ 2,079	$ 1,851	$ 3,943	$ 3,673
Dilutive potential common shares:				
Other stock-based compensation	1	2	2	3
Numerator for diluted earnings per share	$ 2,080	$ 1,853	$ 3,945	$ 3,676
Denominators (000,000)				
Denominator for basic earnings per share:				
Weighted average number of common shares outstanding	3,367	3,396	3,372	3,396
Dilutive potential common shares:				
Stock options	20	34	24	31
Other stock-based compensation	8	8	8	8
Denominator for diluted earnings per share	3,395	3,438	3,404	3,435
Basic earnings per share:				
Income before extraordinary item	$ 0.62	$ 0.54	$ 1.17	$ 1.08
Extraordinary item	-	-	(0.01)	-
Net income	$ 0.62	$ 0.54	$ 1.16	$ 1.08
Diluted earnings per share:				
Income before extraordinary item	$ 0.61	$ 0.54	$ 1.16	$ 1.07
Extraordinary item	-	-	(0.01)	-
Net income	$ 0.61	$ 0.54	$ 1.15	$ 1.07

7. PREPAID PENSION COST Prepaid pension costs are based on the cumulative amount of net pension benefits we recognized under Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions". At June 30, 2001 and December 31, 2000, amounts included in other assets for prepaid pension costs were $6,713 and $5,122. The increase in these assets was primarily due to pension benefits and pension settlement gains during the first six months of the year.

8. SUBSIDIARY FINANCIAL INFORMATION We have fully and unconditionally guaranteed certain outstanding capital securities of Pacific Bell Telephone Company (PacBell) and Southwestern Bell Telephone Company (SWBell), each of which is a wholly owned subsidiary of SBC. In accordance with SEC rules, we are providing the following condensed consolidating financial information.

The Parent column presents investments in all subsidiaries under the equity method of accounting. PacBell and SWBell are listed separately because each has securities that we have guaranteed that would otherwise require SEC periodic reporting. All other wholly owned subsidiaries that do not have securities guaranteed by us that would require separate reporting are presented in the Other column. The consolidating adjustments column (Adjs.) eliminates the intercompany balances and transactions between our subsidiaries.

Condensed Consolidating Statements of Income
For the Three Months Ended June 30, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	$ -	$ 2,613	$ 2,856	$ 6,379	$ (371)	$ 11,477
Total operating expenses	53	1,713	2,063	4,942	(371)	8,400
Operating Income	(53)	900	793	1,437	-	3,077
Interest expense	135	94	101	261	(166)	425
Equity in net income of affiliates	2,134	-	-	543	(2,136)	541
Royalty income (expense)	115	(101)	(115)	101	-	-
Other income (expense) - net	(175)	(1)	2	367	(164)	29
Income Before Income Taxes	1,886	704	579	2,187	(2,134)	3,222
Income taxes	(185)	284	215	829	-	1,143
Income Before Extraordinary Item	2,071	420	364	1,358	(2,134)	2,079
Extraordinary item, net of tax	-	-	-	(8)	-	(8)
Net Income	$ 2,071	$ 420	$ 364	$ 1,350	$ (2,134)	$ 2,071

Condensed Consolidating Statements of Income
For the Three Months Ended June 30, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	$ -	$ 2,586	$ 2,928	$ 8,022	$ (345)	$ 13,191
Total operating expenses	54	1,975	2,201	6,308	(345)	10,193
Operating Income	(54)	611	727	1,714	-	2,998
Interest expense	138	102	95	285	(204)	416
Equity in net income of affiliates	1,637	-	-	206	(1,654)	189
Royalty income (expense)	115	(101)	(115)	101	-	-
Other income (expense) - net	319	-	-	10	(187)	142
Income Before Income Taxes	1,879	408	517	1,746	(1,637)	2,913
Income taxes	28	167	193	674	-	1,062
Net Income	$ 1,851	$ 241	$ 324	$ 1,072	$ (1,637)	$ 1,851

Condensed Consolidating Statements of Income
For the Six Months Ended June 30, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	$ -	$ 5,195	$ 5,757	$12,411	$ (696)	$ 22,667
Total operating expenses	18	3,327	4,201	10,081	(696)	16,931
Operating Income	(18)	1,868	1,556	2,330	-	5,736
Interest expense	283	192	201	540	(332)	884
Equity in net income of affiliates	3,946	-	-	944	(3,948)	942
Royalty income (expense)	230	(203)	(230)	203	-	-
Other income (expense) - net	43	-	2	598	(330)	313
Income Before Income Taxes	3,918	1,473	1,127	3,535	(3,946)	6,107
Income taxes	(7)	594	417	1,160	-	2,164
Income Before Extraordinary Item	3,925	879	710	2,375	(3,946)	3,943
Extraordinary item, net of tax	-	-	-	(18)	-	(18)
Net Income	$ 3,925	$ 879	$ 710	$ 2,357	$(3,946)	$ 3,925

Condensed Consolidating Statements of Income
For the Six Months Ended June 30, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Total operating revenues	$ -	$ 5,106	$ 5,758	$15,484	$ (604)	$ 25,744
Total operating expenses	(47)	3,866	4,438	12,017	(604)	19,670
Operating Income	47	1,240	1,320	3,467	-	6,074

	Parent	PacBell	SWBell	Other	Adjs.	Total
Interest expense	201	203	192	670	(494)	772
Equity in net income of affiliates	3,322	-	-	426	(3,359)	389
Royalty income (expense)	230	(203)	(230)	203	-	-
Other income (expense) - net	390	1	1	248	(457)	183
Income Before Income Taxes	3,788	835	899	3,674	(3,322)	5,874
Income taxes	115	342	336	1,408	-	2,201
Net Income	$ 3,673	$ 493	$ 563	$ 2,266	$(3,322)	$ 3,673

Condensed Consolidating Balance Sheets
June 30, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	$ 347	$ 31	$ 25	$ 246	$ -	$ 649
Accounts receivable - net	3,754	2,087	1,943	13,375	(11,951)	9,208
Other current assets	255	470	765	1,227	-	2,717
Total current assets	4,356	2,588	2,733	14,848	(11,951)	12,574
Property, plant and equipment - net	115	13,354	15,463	19,627	-	48,559
Intangible assets - net	-	-	-	4,957	-	4,957
Investments in equity affiliates	34,215	-	-	15,375	(37,833)	11,757
Other assets	8,049	2,346	449	12,145	(4,902)	18,087
Total Assets	$46,735	$18,288	$18,645	$66,952	$(54,686)	$ 95,934
Debt maturing within one year	$ 7,075	$ 2,028	$ 3,303	$ 3,714	$ (8,099)	$ 8,021
Other current liabilities	1,561	3,363	3,381	10,685	(3,852)	15,138
Total current liabilities	8,636	5,391	6,684	14,399	(11,951)	23,159
Long-term debt	4,225	4,294	3,919	11,438	(4,852)	19,024
Postemployment benefit obligation	79	2,894	3,045	3,949	-	9,967
Other noncurrent liabilities	2,540	1,687	1,214	7,138	(50)	12,529
Total shareowners' equity	31,255	4,022	3,783	30,028	(37,833)	31,255
Total Liabilities and Shareowners' Equity	$46,735	$18,288	$18,645	$66,952	$(54,686)	$ 95,934

Condensed Consolidating Balance Sheets
December 31, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Cash and cash equivalents	$ 436	$ 9	$ 52	$ 146	$ -	$ 643
Accounts receivable - net	9,503	2,219	2,111	10,439	(14,128)	10,144
Other current assets	631	474	697	1,059	-	2,861
Total current assets	10,570	2,702	2,860	11,644	(14,128)	13,648
Property, plant and equipment - net	138	13,028	14,984	19,045	-	47,195
Intangible assets - net	-	-	-	5,475	-	5,475
Investments in equity affiliates	30,072	-	-	17,058	(34,752)	12,378
Other assets	3,750	2,061	272	18,722	(4,850)	19,955
Total Assets	$44,530	$17,791	$18,116	$71,944	$(53,730)	$ 98,651
Debt maturing within one year	$ 8,918	$ 1,776	$ 2,648	$ 4,607	$ (7,479)	$ 10,470
Other current liabilities	2,527	3,794	4,112	16,103	(6,649)	19,887
Total current liabilities	11,445	5,570	6,760	20,710	(14,128)	30,357
Long-term debt	568	4,293	3,976	11,505	(4,850)	15,492
Postemployment benefit obligation	83	2,817	2,993	3,874	-	9,767
Other noncurrent liabilities	1,971	1,536	1,314	6,751	-	11,572

	Parent	PacBell	SWBell	Other	Adjs.	Total
Corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts	-	-	-	1,000	-	1,000
Total shareowners' equity	30,463	3,575	3,073	28,104	(34,752)	30,463
Total Liabilities and Shareowners' Equity	$44,530	$17,791	$18,116	$71,944	$(53,730)	$ 98,651

Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2001

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	$ (261)	$ 1,476	$ 1,017	$ 6,986	$(2,641)	$ 6,577
Net cash from investing activities	1,445	(1,272)	(1,641)	(2,389)	474	(3,383)
Net cash from financing activities	(1,273)	(182)	597	(4,497)	2,167	(3,188)
Net Increase (Decrease) in Cash	$ (89)	$ 22	$ (27)	$ 100	$ -	$ 6

Condensed Consolidating Statements of Cash Flows
Six Months Ended June 30, 2000

	Parent	PacBell	SWBell	Other	Adjs.	Total
Net cash from operating activities	$ 656	$ 1,798	$ 2,032	$ 112	$ 2,138	$ 6,736
Net cash from investing activities	(3,414)	(1,306)	(1,405)	(2,438)	(328)	(8,891)
Net cash from financing activities	2,963	(480)	(648)	2,448	(1,810)	2,473
Net Increase (Decrease) in Cash	$ 205	$ 12	$ (21)	$ 122	$ -	$ 318

9. SEGMENT INFORMATION SBC's segments are strategic business units that offer different products and services and are managed accordingly. We evaluate performance based on income before income taxes adjusted for normalizing (e.g., one-time) items. We have five reportable segments that reflect the current management of our business: (1) wireline; (2) wireless; (3) directory; (4) international; and (5) other.

In the second quarter of 2001, we moved the results of the SBC Services unit from the other segment to the wireline segment because the SBC Services unit now primarily supports the wireline segment. We have restated all prior period information for this change, which had no effect on our consolidated results.

The wireline segment provides landline telecommunications services, including local, network access and long distance services, messaging and Internet services and sells customer premise and private business exchange equipment.

Prior to the fourth quarter of 2000, the wireless segment included our consolidated businesses that provided wireless telecommunications services and sold wireless equipment. In October 2000, we contributed substantially all of our wireless businesses to Cingular and began reporting results from Cingular's operations as equity income in the Consolidated Financial Statements. However, for internal management purposes, we analyze Cingular's results using proportional consolidation and therefore will discuss Cingular's results on that basis for segment reporting.

The directory segment includes all directory operations, including yellow and white pages advertising and electronic publishing. All investments with primarily international operations are included in the international segment. The other segment includes all corporate operations and Ameritech's paging, cable television and SecurityLink operations. SecurityLink was sold in January 2001 and in May 2001, we entered into an agreement to sell our cable television operations.

Normalized results for 2001 exclude the following items:

- Pension settlement gains of $314 ($189 net of tax) in the second quarter and $839 ($519 net of tax) for the first six months (recorded in operating expenses) related to management employees, primarily resulting from a fourth quarter 2000 voluntary retirement program net of costs associated with that program.
- Combined charges of $401 ($261 net of tax) in the second quarter and for the first six months (recorded in other income (expense) - net) related to valuation adjustments of Williams Communications Group Inc. (Williams) and certain other cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (FAS 115) (see Note 10).
- Reduction of a valuation allowance of $120 ($78 net of tax) in the second quarter and for the first six months (recorded in other income (expense) -

net) on a note receivable related to the sale of Ameritech's SecurityLink business. The note was collected in July 2001.

- Combined charges of $316 ($205 net of tax) for the first six months (recorded in operating expenses) related to impairment of our cable operations.

Normalized results for 2000 exclude the following items from operating expenses:

- Pension settlement gains of $124 ($80 net of tax) in the second quarter and $374 ($241 net of tax) for the first six months primarily related to employees who terminated employment during 1999. We were required to record these second quarter gains as a result of revising our estimates of total lump-sum payments to be made during 2000 from a non-management pension plan.
- Costs of $239 ($153 net of tax) in the second quarter and $380 ($270 net of tax) for the first six months associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.
- A charge of $132 for the first six months (with no tax effect) related to in-process research and development from the March 2000 acquisition of Sterling Commerce, Inc.

Segment results, including a reconciliation to our consolidated results, for the three and six months ended June 30, 2001 and 2000 are as follows:

For the three months ended June 30, 2001	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	$ 10,326	$ 7	$ 1,963
Wireless	2,192	-	289
Directory	915	22	537
International	43	12	319
Other	122	14	81
Cingular de-consolidation	(2,121)	-	-
Eliminations	-	(55)	-
Normalizing adjustments	-	-	33
Total	$ 11,477	$ -	$ 3,222

For the three months ended June 30, 2000	Revenues from external customers	Intersegment revenues	Income before income taxes
Wireline	$ 9,912	$ 60	$ 2,061
Wireless	2,037	-	270
Directory	895	22	472
International	107	-	194
Other	241	23	31
Eliminations	-	(105)	-
Normalizing adjustments	(1)	-	(115)
Total	$ 13,191	$ -	$ 2,913

At June 30, 2001 or for the six months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	$ 20,430	$ 15	$ 3,697	$ 69,053
Wireless	4,223	-	478	13,764
Directory	1,708	53	917	2,329
International	104	21	597	11,277
Other	288	31	176	57,001
Cingular de-consolidation	(4,086)	-	-	(12,025)
Eliminations	-	(120)	-	(45,465)
Normalizing adjustments	-	-	242	-
Total	$ 22,667	$ -	$ 6,107	$ 95,934

At June 30, 2000 or for the six months ended	Revenues from external customers	Intersegment revenues	Income before income taxes	Segment assets
Wireline	$ 19,487	$ 114	$ 4,138	$ 60,695
Wireless	3,863	-	571	12,283
Directory	1,738	50	855	2,175

International	168	-	435	13,061
Other	490	45	15	48,597
Eliminations	(1)	(209)	-	(45,640)
Normalizing adjustments	(1)	-	(138)	-
Total	$ 25,744	$ -	$ 5,874	$ 91,191

10. VALUATION ADJUSTMENTS We have cost investments in Williams and in certain alternative providers of digital subscriber line services accounted for under FAS 115. We periodically review the value of these investments and determine whether an investment's decline in value is other than temporary. If so, FAS 115 requires that the cost basis of the investment be written down to fair value, which is the new cost basis. We concluded that the continued depressed market values of those companies, as well as difficulties experienced by many similar companies indicated the decline in value of our investments was other than temporary. As a result of these reviews, we recognized a combined charge of $401 ($261 net of tax) in the second quarter of 2001 in other income (expense) - net.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Throughout this document, SBC Communications Inc. is referred to as "we" or "SBC". A reference to a Note in this section refers to the accompanying Notes to Consolidated Financial Statements.

Overview

Our financial results for the second quarter and the first six months of 2001 and 2000 are summarized as follows:

	Second Quarter			Six-Month Period		
	2001	2000	Percent Change	2001	2000	Percent Change
Operating revenues	$11,477	$13,191	(13.0)%	$22,667	$25,744	(12.0)%
Operating expenses	8,400	10,193	(17.6)	16,931	19,670	(13.9)
Operating income	3,077	2,998	2.6	5,736	6,074	(5.6)
Income before income taxes and extraordinary item	3,222	2,913	10.6	6,107	5,874	4.0
Income before extraordinary item	2,079	1,851	12.3	3,943	3,673	7.4
Extraordinary item, net of tax	(8)	-	-	(18)	-	-
Net income	2,071	1,851	11.9	3,925	3,673	6.9

We reported net income of $2,071, or $0.61 per share assuming dilution, in the second quarter of 2001 and $3,925, or $1.15 per share assuming dilution, for the first six months of 2001 compared to $1,851, or $0.54 per share assuming dilution, in the second quarter of 2000 and $3,673, or $1.07 per share assuming dilution, for the first six months of 2000. The second quarter of 2001 includes an extraordinary loss of $8, net of taxes of $6, related to the early redemption of approximately $500 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts. The first six months of 2001 includes an extraordinary loss of $18, net of taxes of $10, related to the early redemption of approximately $1,000 of our corporation-obligated mandatorily redeemable preferred securities of subsidiary trusts.

Normalized results for 2001 exclude the following items:

- Pension settlement gains of $314 ($189 net of tax) in the second quarter and $839 ($519 net of tax) for the first six months (recorded in operating expenses) related to management employees, primarily resulting from a fourth quarter 2000 voluntary retirement program net of costs associated with that program.
- Combined charges of $401 ($261 net of tax) in the second quarter and for the first six months (recorded in other income (expense) - net) related to valuation adjustments of Williams Communications Group Inc. and certain other cost investments accounted for under Financial Accounting Standards Board Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (see Note 10).
- Reduction of a valuation allowance of $120 ($78 net of tax) in the second quarter and for the first six months (recorded in other income (expense) - net) on a note receivable related to the sale of Ameritech Corporation's (Ameritech) SecurityLink business. The note was collected in July 2001.
- Combined charges of $316 ($205 net of tax) for the first six months (recorded in operating expenses) related to impairment of our cable operations.

Normalized results for 2000 exclude the following items from operating expenses:

- Pension settlement gains of $124 ($80 net of tax) in the second quarter and $374 ($241 net of tax) for the first six months primarily related to employees who terminated employment during 1999. We were required to record these second quarter gains as a result of revising our estimates of total lump-sum payments to be made during 2000 from a non-management pension plan.
- Costs of $239 ($153 net of tax) in the second quarter and $380 ($270 net of tax) for the first six months associated with strategic initiatives and other adjustments resulting from the merger integration process with Ameritech.
- A charge of $132 for the first six months (with no tax effect) related to in-process research and development from the March 2000 acquisition of Sterling Commerce, Inc. (Sterling).

The net effect of excluding these normalizing items was to decrease net income by $6 in the second quarter and $131 for the first six months of 2001, and to increase net income by $73 in the second quarter and $161 for the first six months of 2000. In addition to these normalizing items, for internal management purposes, we include the 60% proportional consolidation of Cingular Wireless (Cingular) in our 2001 normalized results. The following table summarizes our normalized results for the second quarter and first six months of 2001 and 2000.

Normalized Results

	Second Quarter			Six-Month Period		
	2001	2000	Percent Change	2001	2000	Percent Change
Operating revenues	$ 13,586	$ 13,192	3.0%	$ 26,730	$ 25,745	3.8%
Operating expenses	10,370	10,077	2.9	20,758	19,531	6.3
Operating income	3,216	3,115	3.2	5,972	6,214	(3.9)
Income before income taxes and extraordinary item	3,189	3,028	5.3	5,865	6,012	(2.4)
Income before extraordinary item	2,073	1,924	7.7	3,812	3,834	(0.6)

Consolidated normalized revenues increased in the second quarter primarily due to growth in demand for data communications and wireless services and products. However, the growth rate was slower than the first quarter reflecting the ongoing impact of a weak United States' (U.S.) economy, increased competition and sales of non-strategic assets. Consolidated normalized operating expenses for the second quarter declined sequentially from the first quarter of 2001 but increased moderately from the second quarter of 2000 due to investments in new products and services, including Digital Subscriber Line (DSL) and long distance service, and addressing service issues in the Ameritech region. These demand-related increases in expenses were partially offset by cost savings from reductions in employee levels and other operational efficiencies. While the first six months of 2001 show a decline in operating income and income before extraordinary item compared to the first six months of 2000, these expense factors contributed to an increase in operating income and income before extraordinary item both sequentially over the first quarter of 2001 and compared to the second quarter of 2000.

Segment Results

The following tables show components of normalized results of operations by segment. A discussion of significant segment results is also presented. Intercompany interest affects the segment results of operations but is not discussed as it is eliminated in consolidation. The consolidated results section discusses interest expense, interest income, other income (expense) - net and income taxes.

Wireline
Normalized Results

	Second Quarter			Six-Month Period		
	2001	2000	Percent Change	2001	2000	Percent Change
Operating revenues						
Local service	$ 5,923	$ 5,467	8.3%	$ 11,487	$ 10,595	8.4%
Network access	2,604	2,696	(3.4)	5,207	5,384	(3.3)
Long distance service	709	715	(0.8)	1,447	1,469	(1.5)
Other	1,097	1,094	0.3	2,304	2,153	7.0
Total Operating Revenues	10,333	9,972	3.6	20,445	19,601	4.3
Operating expenses						
Operations and support	5,972	5,682	5.1	11,980	11,116	7.8
Depreciation and amortization	2,094	1,931	8.4	4,133	3,747	10.3
Total Operating Expenses	8,066	7,613	6.0	16,113	14,863	8.4
Operating Income	2,267	2,359	(3.9)	4,332	4,738	(8.6)
Interest Expense	311	322	(3.4)	656	646	1.5

Other Income (Expense) - Net	7	24	(70.8)	21	46	(54.3)
Income Before Income Taxes	$ 1,963	$ 2,061	(4.8)%	$ 3,697	$ 4,138	(10.7)%

Local service revenues increased $456, or 8.3%, in the second quarter and $892, or 8.4%, for the first six months of 2001. Approximately $145 of the increase in the second quarter and $337 for the first six months was attributable to continued demand from business customers for network integration services. Increases in wholesale revenues, which include unbundled network elements and resale services, accounted for approximately $93 of the second-quarter increase and $192 for the first six months. Revenues from vertical services such as Caller ID, voice mail and other enhanced services and vertical service packages increased by approximately $33 in the second quarter and $109 for the first six months due to both increased demand and pricing. The continued rollout of DSL increased local service revenues by approximately $58 in the second quarter and $144 for the first six months and we increased our number of DSL customers to approximately 1,037,000 at the end of the second quarter of 2001. Revenue increases were partially offset by a decrease in access line revenue of approximately $148 in the second quarter and $235 for the first six months, due to both a slowing U.S. economy and competitive losses.

Passage of the Illinois legislation discussed in Competitive and Regulatory Environment resulted in a one-time increase in revenues of approximately $174 in the second quarter and $128 for the first six months of 2001. The first quarter of 2001 included a reserve against revenues of approximately $46 relating to certain issues then pending before the Illinois Commerce Commission (ICC). This reserve was reversed in the second quarter since the legislation resolved these issues. Additionally, as discussed below, the legislation increased operations and support expenses and decreased interest expense.

Network access revenues decreased $92, or 3.4%, in the second quarter and $177, or 3.3%, for the first six months of 2001. The declines were primarily due to the continuing impact of the July 2000 implementation of the Coalition for Affordable Local and Long Distance Service (CALLS) proposal, which required reduction of carrier switched access rates. Implementation of CALLS reduced network access revenues by approximately $186 in the second quarter and $359 for the first six months. Additional decreases resulted from state regulatory access rate reductions. Access rate reductions were partially offset by continued demand for our core data transport services including SONET, DS3s and ATM.

Long distance service revenues decreased $6, or 0.8%, in the second quarter and $22, or 1.5%, for the first six months of 2001. Long distance service revenues decreased by approximately $46 in the second quarter and $103 for the first six months due to competitive losses resulting from intraLATA dialing parity. Competitive pricing actions in the Ameritech region also decreased revenues approximately $40 in the second quarter and $74 for the first six months. These decreases were largely offset by new revenues of approximately $84 in the second quarter and $153 for the first six months due to our entry into the Texas, Kansas and Oklahoma interLATA long distance markets.

Other operating revenues increased $3, or 0.3%, in the second quarter and $151, or 7.0%, for the first six months of 2001. Sales of nonregulated products and services increased modestly in the second quarter but were less than the first quarter of 2001 due to the current weakness in the U.S. economy. Price increases in 2000 added approximately $35 to the increase in the second quarter and $68 for the first six months of 2001. These increases were mostly offset by continued declines in the payphone business of approximately $24 in the second quarter and $38 for the first six months of 2001.

Operations and support expenses increased $290, or 5.1%, in the second quarter and $864, or 7.8%, for the first six months of 2001. Costs to address service issues in the Ameritech region continued to be higher than 2000, and increased approximately $74 in the second quarter and $158 for the first six months. Passage of the Illinois legislation discussed in Competitive and Regulatory Environment increased expenses approximately $110 in the second quarter and for the first six months of 2001. Our provision for uncollectible accounts increased approximately $140 in the second quarter and $240 for the first six months related to reserves for companies that went out of business or are a higher credit risk due to the current weakness in the U.S. economy. Approximately $80 of the increase in the second quarter and $228 for the first six months was related to costs associated with our continued rollout of DSL, as mentioned in local service. Costs associated with data equipment sales, network integration and e-commerce services increased approximately $125 in the second quarter and $414 for the first six months due to increased demand, although second quarter demand was weaker than the first quarter of 2001. In addition, our long distance and national expansion initiatives increased expenses approximately $113 in the second quarter and $269 for the first six months.

Costs associated with reciprocal compensation were relatively unchanged in the second quarter and approximately $85 lower for the first six months due to reduced negotiated rates partially offset by growth in usage. We also had lower expenses of approximately $256 in the second quarter and $343 for the first six months related to reduced employee levels from early retirements, lower personnel benefit costs, reduced outsourcing costs and gains from certain employee postretirement plans. In addition, the second quarter and first six months of 2001 included a reduction in taxes of approximately $92, primarily related to settlements and lower property tax appraisals.

Depreciation and amortization expenses increased $163, or 8.4%, in the second quarter and $386, or 10.3%, for the first six months of 2001. The majority of the increase was related to higher plant levels from the buildout of our broadband network and launch of new products and services, including DSL and Internet data centers. Our acquisitions of Sterling and a controlling interest in the parent company of webhosting.com in 2000 also contributed approximately $20 and $104 to the increase in the second quarter and for the first six months of 2001.

Wireless
Normalized Results

	Second Quarter			Six-Month Period		
	2001	2000	Percent Change	2001	2000	Percent Change
Operating revenues						
Subscriber revenue	$ 1,850	$ 1,648	12.3%	$ 3,538	$ 3,148	12.4%
Other	342	389	(12.1)	685	715	(4.2)
Total Operating Revenues	2,192	2,037	7.6	4,223	3,863	9.3
Operating expenses						
Operations and support	1,439	1,348	6.8	2,894	2,521	14.8
Depreciation and amortization	312	287	8.7	599	566	5.8
Total Operating Expenses	1,751	1,635	7.1	3,493	3,087	13.2
Operating Income	441	402	9.7	730	776	(5.9)
Interest Expense	142	85	67.1	284	124	-
Equity in Net Income of Affiliates	4	(1)	-	11	-	-
Other Income (Expense) - Net	(14)	(46)	69.6	21	(81)	-
Income Before Income Taxes	$ 289	$ 270	7.0%	$ 478	$ 571	(16.3)%

As a result of our joint venture with BellSouth Corporation, we account for our 60% economic interest in Cingular under the equity method of accounting. However, we use proportional consolidation in order to evaluate the results of Cingular for internal management purposes. In the table above, Cingular's proportional results are included in 2001 along with our wireless properties pending contribution, while the 2000 amounts reflect our similar historical wireless operations.

Subscriber revenues increased $202, or 12.3%, in the second quarter and $390, or 12.4%, for the first six months of 2001. The majority of the increase was related to an increase in customers, increased minutes of use and the sale of higher access rate plans. At June 30, 2001, Cingular had 21,218,000 customers.

Other revenues decreased $47, or 12.1%, in the second quarter and $30, or 4.2%, for the first six months of 2001. This decrease was due to a decline in roaming revenues from other carriers, reflecting the continued buildout of competitors' networks, which resulted in fewer minutes on Cingular's network and lower negotiated rates with the other carriers. This decrease was partially offset by increased equipment sales due to customer additions, fewer incentives on handsets for new customers, as well as an increase in existing customers upgrading their handsets.

Operations and support expenses increased $91, or 6.8%, in the second quarter and $373, or 14.8%, for the first six months of 2001. The increase was primarily due to higher equipment costs caused by an increase in customers and in demand for higher quality handsets, an increase in long distance expenses as more plans include free long distance and the Cingular national branding campaign in the first quarter of 2001. These increases were partially offset by administrative cost savings gained through the formation of Cingular.

Depreciation and amortization expenses increased by $25, or 8.7%, in the second quarter and $33, or 5.8%, for the first six months of 2001 primarily related to higher plant levels.

Directory
Normalized Results

	Second Quarter	Six-Month Period

	2001	2000	Percent Change	2001	2000	Percent Change
Operating Revenues	$ 937	$ 917	2.2%	$ 1,761	$ 1,788	(1.5)%
Operating expenses						
Operations and support	393	440	(10.7)	833	922	(9.7)
Depreciation and amortization	9	7	28.6	18	15	20.0
Total Operating Expenses	402	447	(10.1)	851	937	(9.2)
Operating Income	535	470	13.8	910	851	6.9
Interest Expense	2	2	-	2	5	(60.0)
Other Income (Expense) - Net	4	4	-	9	9	-
Income Before Income Taxes	$ 537	$ 472	13.8%	$ 917	$ 855	7.3%

Operating revenues increased $20, or 2.2%, in the second quarter and decreased $27, or 1.5%, for the first six months of 2001. Increased demand for directory advertising services in the second quarter was partially offset by decreased revenues due to a change in timing of directory publications from the second quarter to later in the year. For the first six months of 2001, revenues decreased approximately $74 due to changes in the timing of directory publications from the first and second quarters of 2001 to later in the year. This decline was partially offset by an increase in demand for directory advertising services.

Operations and support expenses decreased $47, or 10.7%, in the second quarter and $89, or 9.7%, for the first six months of 2001. These decreases were primarily due to lower advertising, salary and benefit expenses and license and sales and use tax expenses. The changes in the timing of directory publications noted above in directory operating revenues had a minimal impact on operations and support expenses in the second quarter and decreased expenses approximately $26 for the first six months of 2001.

International
Normalized Results

	Second Quarter			Six-Month Period		
	2001	2000	Percent Change	2001	2000	Percent Change
Operating Revenues	$ 55	$ 107	(48.6)%	$ 125	$ 168	(25.6)%
Operating expenses	67	118	(43.2)	142	207	(31.4)
Operating Income (Loss)	(12)	(11)	(9.1)	(17)	(39)	56.4
Interest Expense	9	67	(86.6)	10	137	(92.7)
Equity in Net Income of Affiliates	220	198	11.1	397	397	-
Other Income (Expense) - Net	120	74	62.2	227	212	7.1
Income Before Income Taxes	$ 319	$ 194	64.4%	$ 597	$ 433	37.9%

Operating revenues decreased $52, or 48.6%, in the second quarter and $43, or 25.6%, for the first six months of 2001. The decrease was primarily caused by a decrease in directory advertising revenue due to the December 2000 sale of our German directory investment, Wer Liefert Was (WLW). Also contributing to the declines were lower volume-related long distance revenues.

Operating expenses decreased $51, or 43.2%, in the second quarter and $65, or 31.4%, for the first six months of 2001. The decrease was due primarily to the sale of WLW and lower volume-related long distance revenues, as mentioned above.

Equity in net income of affiliates increased $22, or 11.1%, in the second quarter and was flat for the first six months of 2001. Cegetel S.A.'s sale of AOL France, wireless subscriber growth and higher average revenue per customer in its wireless operations increased equity income approximately $66 in the second quarter and $82 for the first six months of 2001. The sale of MATAV in the third quarter of 2000 decreased equity income on a comparative basis approximately $32 in the second quarter and $53 for the first six months of 2001. Additionally, the sale of diAx A.G. (diAx) in the first quarter of 2001 and the exchange of our equity investment in ATL - Algar Telecom Leste S.A. for a cost investment in Telecom Americas eliminated losses on a comparative basis of approximately $41 in the second quarter and $66 for the first six months of 2001. Equity income the second quarter and $66 for the first six months of 2001. Equity income decreased approximately $18 for the first six months of 2001 due to a smaller ownership percentage in our investment in Telefonos de Mexico, S.A. de C.V. (Telmex) and higher costs of operations at America Movil S.A. de C.V. due to recent investments in South American wireless companies. Additionally, equity income decreased approximately $44 in the second quarter and $119 for the first six months of 2001 from Belgacom S.A. and TDC A/S (TDC) (formerly known as Tele Danmark A/S) primarily related to decreased earnings from their foreign affiliates and increased competition. Equity income increased approximately $54 for the first six months of 2001 from Bell Canada, largely due to the gain on their disposition of an Internet service provider subsidiary.

Other
Normalized Results

	Second Quarter			Six-Month Period		
	2001	2000	Percent Change	2001	2000	Percent Change
Operating Revenues	$ 136	$ 264	(48.5)%	$ 319	$ 535	(40.4)%
Operating expenses	151	369	(59.1)	302	647	(53.3)
Operating Income (Loss)	(15)	(105)	85.7	17	(112)	-
Interest Expense	250	144	73.6	510	354	44.1
Other Income (Expense) - Net	346	280	23.6	669	481	39.1
Income Before Income Taxes	$ 81	$ 31	- %	$ 176	$ 15	-%

Operating revenues decreased $128, or 48.5%, in the second quarter and $216, or 40.4%, for the first six months of 2001, primarily due to the sale of SecurityLink in January 2001. In May 2001, we entered into an agreement to sell our cable television operations, pending regulatory approvals. Once the sale is final, we expect operating revenues to be reduced by approximately $40 per quarter.

Operating expenses decreased $218, or 59.1%, in the second quarter and $345, or 53.3%, for the first six months of 2001, primarily due to the sale of SecurityLink. We expect cash operating expenses to decrease approximately $50 per quarter once the sale of our cable television operations is approved.

Consolidated Results

Interest expense increased $9, or 2.2%, in the second quarter and $112, or 14.5%, for the first six months of 2001. The increase is due to interest accrued on payables to Cingular that, prior to the formation of Cingular, was eliminated in consolidation. However, since the formation of Cingular, this expense is mostly offset against our equity earnings from Cingular, which includes the interest income on these notes; therefore having an immaterial impact on consolidated net income. In the second quarter of 2001 we completed the net debt settlement agreement with Cingular and, effective in the third quarter of 2001, we will no longer incur this interest expense (see Note 1). This increase was largely offset by cost savings from lower composite rates. Also offsetting the increase was the reversal of an accrual of approximately $18 in the second quarter and $13 for the first six months of 2001 related to items resolved by the Illinois legislation discussed in Competitive and Regulatory Environment. In addition to these factors, higher debt levels contributed to the increased interest expense for the first six months of 2001.

Interest income increased $183 in the second quarter and $337 for the first six months of 2001. The increase was primarily due to the income accrued from Cingular for the amount owed to us on notes receivable that, prior to the formation of Cingular, was eliminated in consolidation. However, since the formation of Cingular, this income is mostly offset against our equity earnings from Cingular, which includes the interest expense on these notes; therefore having an immaterial impact on consolidated net income.

Other income (expense) - net includes items that we normalized as previously described in the "Overview" section. In addition to those items, the second quarter and first six months of 2001 included gains on the sale of investments of approximately $95 and $224, consisting of the sale of Amdocs Limited (Amdocs) shares and other investments. These gains were partially offset by minority interest and dividends paid on preferred securities issued by Ameritech subsidiaries of approximately $26 in the second quarter and $47 for the first six months of 2001. The second quarter also included gains of approximately $46 recognized for market adjustments on shares of Amdocs, which were used for deferred compensation. An offsetting deferred compensation expense was recorded in operations and support expense. Additionally, in the first six months of 2001, we recognized an expense of approximately $581 related to an endowment of Amdocs shares to the SBC Foundation and income of approximately $575 from the related mark to market adjustment on the Amdocs shares, for a net expense of $6.

The 2000 results included a mark to market adjustment on the Debt Exchangeable for Common Stock (DECS) redeemable in Telmex L shares resulting in income of approximately $90 in the second quarter and an expense of $48 for the first six months of 2000. The first six months of 2000 also included a gain on the sale of Telmex L shares of approximately $133. The second quarter and first six months of 2000 included gains of approximately $65 recognized for market adjustments on shares of Amdocs, which were used for deferred compensation. An offsetting deferred compensation expense was recorded in operations and support expense. Gains on sales of investments were approximately $25 in the second quarter and $83 for the first six months of 2000. We recognized interest rate swap income of approximately $20 for the first six months of 2000 and minority interest expense of approximately $51 in the second quarter and $106 for the first six months of 2000.

Income Taxes in 2001 and 2000 reflect the tax effect of the normalizing items previously described in the Overview section. These charges increased income taxes $27 in the second quarter and $111 for the first six months of 2001 and decreased income taxes by $42 in the second quarter and increased income taxes by $23 for the first six months of 2000. The net effective tax rate on these one-time items differed as a result of nondeductible items included in the charges. Excluding these items, income taxes would have been $1,116 and $2,053 for the second quarter and first six months of 2001. For the second quarter and first six months of 2000, income taxes would have been $1,104 and $2,178 excluding one-time charges. Income taxes were higher in the second quarter of 2001 primarily due to higher income before income taxes and lower for the first six months of 2001 due to lower income before income taxes. The decrease in the effective tax rate for the first six months of 2001 is primarily due to contributions to the SBC Foundation in the first quarter of 2001 and a decrease in non-deductible goodwill for businesses that were disposed of in 2000.

COMPETITIVE AND REGULATORY ENVIRONMENT

ILLINOIS LEGISLATION In May 2001, the Illinois legislature passed a four-year law, effective June 30, 2001, mandating certain new requirements for Illinois telecommunications companies, including our Illinois wireline subsidiary. The law (1) requires all local telephone companies to provide wireless phones or cash payments to customers who wait more than five days to get local service repaired or installed, (2) increases the dollar amount the ICC is authorized to levy in fines against companies that violate ICC orders, (3) requires our subsidiary to offer fixed-rate service plans that will result in savings for the average residential customer and (4) requires our subsidiary to provide advanced broadband telecommunications services to 80% of its Illinois customers by 2005. Additionally, the law contains numerous provisions affecting competitive access to our wireline network, most notably a requirement that we offer for resale new combinations of unbundled network elements. This issue regarding new combinations is also pending before the United States Supreme Court (Supreme Court) and the Supreme Court's decision will likely affect implementation of these unbundling provisions.

Most of the provisions of this legislation will require the ICC to issue specific regulations, prior to implementation, in order to integrate the new legislation with existing alternative regulation laws. This legislation may require us to incur additional expenses to restructure our telecommunications network, which may or may not improve the efficiency of the network, and to improve installation and repair service quality. We are likely to experience a decrease in revenues due to the potentially lower total revenue from average customers generated under fixed-rate service plans as well as due to new rules regarding competitors' access to our network, including the impact of any required new combinations of unbundled network elements offered for resale. The extent of any decrease will depend, among other factors, on the monthly rates that the ICC ultimately authorizes for our service plans and the resulting number of access lines lost to competitors as well as on future ICC and Supreme Court rulings regarding competitive access. As we cannot predict how the ICC will implement the provisions of this legislation, or the effect of the pending Supreme Court case, the legislation's direct and indirect effect on our future results of operations and financial position is not determinable at this time; however, it likely will be unfavorable and the amounts could be significant. We are prepared to challenge various provisions of this law depending on ICC interpretation of those provisions.

This legislation increased pre-tax income approximately $82 in the second quarter and $31 for the first six months of 2001, consisting of a one-time revenue increase due to the legislation resolving issues pending before the ICC offset by one-time refunds and implementation expenses.

MICHIGAN LEGISLATION In July 2000, the Michigan legislature eliminated the monthly intrastate end-user common line (EUCL) charge and implemented price caps for certain telecommunications services. In July 2000, we eliminated the EUCL charge and filed suit in federal court challenging the constitutionality of the legislation. In September 2000, temporary stays of the price cap provision and the EUCL charge elimination were issued. In July 2001, the United States Court of Appeals for the Sixth Circuit (6th Circuit) ruled that we had demonstrated a substantial likelihood of ultimately showing that the price cap and the EUCL charge elimination were unconstitutional and stayed both provisions pending completion of the litigation. We re-instated the EUCL charge in October 2000, and increased prices for our basic local services in April 2001. Both the EUCL charge and the incremental local services' price increase will be refunded if the legislation is upheld, and at June 30, 2001, we had approximately $119 accrued for potential refunds. In July 2001, both the State of Michigan and MCI WorldCom, Inc. filed petitions for re-hearing of the 6th Circuit decision.

AMERITECH MERGER On October 8, 1999, we completed the merger of one of our subsidiaries with Ameritech. The Federal Communications Commission (FCC) issued an order approving the transaction, subject to certain conditions, including fostering out-of-region competition, promoting advanced services, opening local markets to competition and improving residential services. These FCC conditions require specific performance and reporting and contain enforcement provisions that could potentially trigger more than $2 billion in payments through June 2004 if certain goals are not met. Associated with these conditions, we incurred approximately $18 in the second quarter and $41 for the first six months of 2001 in additional expenses, including payments for failing to meet certain performance measurements.

LONG DISTANCE APPLICATIONS We continue to seek long distance approval in our other in-region states and have filed applications with state commissions in California and Nevada and have received state commission approval on our Missouri and Arkansas applications. In June 2001, we withdrew our Missouri long distance application filed with the FCC in April 2001 in order to revise certain information, and plan to re-file the Missouri application and file the Arkansas application with the FCC before the end of 2001. The FCC is currently re-examining certain information contained in our previously approved Texas, Kansas and Oklahoma long distance applications. We cannot currently predict the effect that this inquiry will have on our results of operations and financial position.

WIRELESS AUCTION Cingular invested in a participant in a December 2000/January 2001 FCC auction of wireless spectrum licenses. In June 2001, the United States Court of Appeals for the District of Columbia ruled that the FCC had no right to re-auction certain licenses from a bankrupt New York wireless company. In August 2001, the FCC announced that it plans to appeal this decision to the Supreme Court. It is unclear how the resolution of this issue will affect Cingular.

OTHER BUSINESS MATTERS

NEW ACCOUNTING STANDARDS On January 1, 2001, we adopted Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities", which requires all derivatives to be recorded on the balance sheet at fair value. Our adoption did not have a significant effect on our financial position or results of operations.

In June 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" (FAS 141), and Statement No. 142, "Goodwill and Other Intangible Assets" (FAS 142). FAS 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Use of the pooling-of-interests method is prohibited. FAS 141 also provides new criteria to determine whether an acquired intangible asset should be recognized separately from goodwill.

Upon adoption of FAS 142, amortization of existing goodwill would cease and the remaining book value would be tested for impairment at least annually at the reporting unit level using a new two-step impairment test. Amortization of goodwill recorded on equity investments would also cease, but this embedded goodwill will continue to be tested for impairment under current accounting rules for equity investments. In addition, we will have adjustments to the equity in net income of affiliates line item to reflect the impact of adopting these new statements on the operations of our equity investments.

We will adopt both statements on January 1, 2002 and are currently evaluating the impact of these statements. We have not yet quantified the impact of these statements on the operations of our equity investments; included Cingular and our international segment. Our existing and embedded goodwill amortization expense was approximately $74 net of tax in the second quarter and $151 net of tax for the first six months of 2001. During 2002, we will perform the first of the required impairment tests of goodwill as of January 1, 2002, and we have not yet determined what the effect of these tests will be on our earnings and financial position. Any impairment resulting from our initial application of the statements will be recorded as a cumulative effect of accounting change as of January 1, 2002.

LABOR AGREEMENT In August 2001, the International Brotherhood of Electrical Workers ratified a labor agreement for wage and other economic matters and extended the expiration to June 26, 2004. The agreement included a wage increase of approximately 12.25% over the next three years, in addition to other economic provisions.

VALUATION ADJUSTMENT See Note 10 for a discussion of the impairment of certain cost investments.